

Message Text

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SUBJ: ECOSOC STUDY GROUP ON MULTINATIONAL CORPORATIONS

1. SUMMARY. ECOSOC STUDY GROUP ON MULTINATION CORPORATIONS IN DEVELOPMENT AND INTERNATIONAL RELATIONS HELD FIRST OPEN SESSION 11 SEPT. REPS FROM FIVE US BASED MNC'S ADDRESSED THE GROUP IN THE MORNING SESSION AND RESPONDED TO QUESTIONS IN THE AFTERNOON. THE CHAIRMAN OF THE GROUP, L.K. JHA (INDIA), SET THE TONE OF THE DISCUSSION BY STATING THAT THE CONTRIBUTIONS MADE BY MNC'S WERE NOT BEING IGNORED BUT THAT NATURALLY THE GROUP HAD TO FOCUS ON AREAS OF DISAGREEMENT IN ORDER TO UNDERSTAND THE ISSUES WHICH LEAD TO DISAGREEMENTS AND TO RECOMMEND APPROPRIATE ACTION. END SUMMARY.

2. THE FIRST SPEAKER WAS EMILIO COLLADO, EXXON VICE PRESIDENT. AFTER REVIEWING THE INFORMATION PRESENTED IN THE SECT STUDY ON MNC'S IN WORLD DEVELOPMENT, ST/ECA/190, HE CITED SPECIFIC AREAS FOR COOPERATIVE ACTION BY MNC'S AND GOVERNMENTS. HE SAID THAT FURTHER INTERGOVERNMENTAL EFFORTS ARE NEEDED TO NEGOTIATE MULTILATERAL TAX AGREEMENTS THAT WOULD HARMONIZE NATIONAL TAX POLICIES.

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SPECIFIC AREAS:

- A. TO ELIMINATE INTERNATIONAL DOUBLE TAXATION;
- B. TO AGREE ON SPECIFIC UPPER LIMITS TO THE EXTENT OF TAX

INCENTIVES BY HOST COUNTRIES;
C. TO REACH INTERNATIONAL AGREEMENT THAT ARMS-LENGTH OR MARKET PRICES FOR INTER-AFFILIATE TRANSACTIONS BE USED TO DETERMINE TAXABLE INCOME.

COLLADO ALSO PROPOSED AN AGREEMENT AMONG MNC'S ON A VOLUNTARY CODE OF CONDUCT DESCRIBING POLICY OF ACCEPTABLE BEHAVIOR THAT WOULD HOPEFULLY PROVIDE BETTER UNDERSTANDING BETWEEN MNC'S AND GOVERNMENTS. HE ALSO ASKED THAT GOVERNMENTS COORDINATE POLICIES AND COORDINATE ANTI-TRUST AND BALANCE OF PAYMENTS POLICIES IN ORDER TO LESSEN THE DISTORTIONS THAT FLOW FROM OVERLAPPING JURISDICTIONS OF HOME AND HOST COUNTRIES.

3. JACQUES MAISONROUGE, PRESIDENT, IBM WORLD TRADE CORPORATION, SAID THE SECT STUDY OVERPLAYED THE ABILITY OF THE MNC TO ESCAPE NATIONAL JURISDICTION AND CONTROL. WHILE EXPRESSING CONFIDENCE THAT MNC'S AND GOVERNMENTS WERE NOT ON A COLLISION COURSE, HE DID FAVOR THE PROPOSAL THAT A CODE OF CONDUCT BE ESTABLISHED.

4. JOHN POWERS, FORMER CHAIRMAN, PFIZER, SAID THAT AFFILIATES OF MNC'S IDENTIFY THEIR OPERATIONS WITH THE PLANS OF THE HOST COUNTRIES. WHILE STATING THAT THE TIME WAS NOT RIPE FOR INTERNATIONAL REGULATION OF MNC ACTIVITIES, HE DID ENDORSE THE PROPOSAL THAT GOVERNMENTS SEEK AN AGREEMENT ON HARMONIZATION OF TAX AND ANTI-TRUST POLICIES. ADDITIONALLY, HE SUGGESTED THAT THE UN MIGHT HELP LDC'S FORMULATE NATIONAL DEVELOPMENT GUIDELINES WHICH THE FOREIGN INVESTOR COULD THEN FOLLOW.

5. THOMAS MURPHY, VICE CHAIRMAN, GMC, QUESTIONED THE WILLINGNESS OF COUNTRIES, PARTICULARLY THE LDC'S, TO ACHIEVE HARMONIZATION OF THEIR TAX AND INVESTMENT POLICIES. HE SAID THAT GMC WOULD WELCOME A GATT-TYPE OF MECHANISM FOR INVESTMENTS AND HE HOPED THAT GOVERNMENTS WOULD BE ABLE TO REACH SATISFACTORY AGREEMENT ON THIS SUBJECT.

6. IRVING SHAPIRO, VICE CHAIRMAN, DUPONT, VIGOROUSLY DEFENDED THE CONTRIBUTIONS OF MNC'S TO ECONOMIC DEVELOPMENT. STRESSING THAT UNCLASSIFIED

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A TRUE WORLD ECONOMY IS RAPIDLY EMERGING, HE ASKED THAT THE GROUP CONSIDER SUGGESTING THE ELABORATION OF A VOLUNTARY CODE OF CONDUCT FOR GOVERNMENTS, MNC'S, AND LABOR ORGANIZATIONS WITH THE POSSIBILITY OF A GATT-TYPE OF AGREEMENT TO ASSESS COMPLIANCE. HIS LESS SWEEPING PROPOSALS WERE THAT GOVERNMENTS HARMONIZE TAX POLICIES AND INCENTIVES OFFERED FOR INVESTMENTS IN ORDER TO ELIMINATE DISTORTION IN THE ALLOCATION OF CAPITAL. HE FURTHER SUGGESTED THAT THE UN MIGHT FACILITATE THE FLOW OF INFORMATION BETWEEN GOVERNMENTS AND MNC'S.

7. THE FIRST QUESTION RAISED IN THE AFTERNOON CONCERNED MNC PATTERNS OF OWNERSHIP AND CONTROL OF AFFILIATES. IBM EXPLAINED ALL ITS AFFILIATES ARE WHOLLY OWNED BUT THAT THE STOCK IN IBM

IS OFFERED TO LOCAL INVESTORS. EXXON STATED THAT IN THE OIL INDUSTRY RISKS AND PROSPECTING COSTS ARE SO HIGH THAT JOINT VENTURES WITH A LOCAL PARTNER IN CAPITAL POOR COUNTRIES ARE NOT ATTRACTIVE TO THE LOCAL INVESTOR. OTHER COMMENTS INDICATED THE FLEXIBILITY OF THE MNC IN ESTABLISHING VARIOUS MEANS OF COORDINATING THE ACTIVITIES OF THEIR WOULD WIDE SUBSIDIARIES.

8. IN RESPONSE TO THE QUESTION HOW MNC'S PARTICIPATE IN THE TRANSFER OF TECHNOLOGY, EXXON VICE PRESIDENT COLLADO EXPLAINED THAT FREQUENTLY THE TECHNOLOGY REQUIRED IS IN THE PUBLIC DOMAIN BUT THAT THE ONLY WAY TO TRANSFER THE TECHNICAL AND MANAGERIAL KNOW-HOW NECESSARY TO EXPLOIT IT WAS THROUGH PARTICIPATION OF LOCAL EMPLOYEES IN THE OPERATION OF THE MNC'S.

9. CHAIRMAN JHA ASKED ABOUT RESTRICTION ON THE RIGHT OF SUBSIDIARIES TO EXPORT. DUPONT EXPLAINED THAT THESE ARE A THING OF THE PAST IN THE CHEMICAL INDUSTRIES BUT THAT PRODUCTS CANNOT BE EXPORTED TO NATIONS WHERE SOMEONE ELSE OWNS THE PATENT RIGHTS. HE DID ADMIT, HOWEVER, THAT HOME MANAGEMENT DECIDES ON HOW TO BEST SERVE DIFFERENT MARKETS AND SALES AREAS. GM SAID THAT WHILE SUBSIDIARIES WERE NOT RESTRICTED IN THEIR RIGHT TO EXPORT, THEY WERE DESIGNED TO SERVICE THE MARKETS IN WHICH THEY ARE LOCATED.

10. THE MOST DIFFICULT QUESTION FOR THE CORPORATION REPS IS HOW THEY DEVELOP TECHNOLOGIES THAT ARE MORE APPROPRIATE FOR LABOR-INTENSIVE SOCIETIES. MOST STATED THAT A MAJORITY OF LDC'S DEMAND AND GET THE LATEST TECHNOLOGY IN THEIR SUBSIDIARIES AND THEY UNCLASSIFIED

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ADDED THAT ANYTHING LESS THAN THE MOST EFFICIENT USE OF RESOURCES WOULD EVENTUALLY PROVE UNSATISFACTORY NOT ONLY FOR THE MNC BUT ALSO FOR THE HOST COUNTRY. ONE MEMBER OF THE GROUP, EMERIK BLUM, PRESIDENT OF YUGOSLAVIA'S ENERGOINVEST, SAID THAT THERE IS NO SUBSTITUTE FOR THE BEST TECHNOLOGY. HE CITED THE EXPERIENCE OF YUGOSLAVS BY POINTING OUT THAT 20 YEARS AGO ALL YUGOSLAVS WERE UNEMPLOYED AND POOR AND THE SUBSEQUENT DECISION TO STRESS GROWTH AND HIGH-LEVEL TECHNOLOGY HAS GREATLY INCREASED THE WELFARE OF THE COUNTRY EVEN IF THERE HAS BEEN A GROWTH IN THE LEVEL OF UNEMPLOYMENT. MEMBERS OF THE GROUP SEEMED WILLING TO ACCEPT THE STATEMENTS OF THE MNC REPS THAT WORK NEEDS TO BE DONE IN THE HARMONIZATION OF TAX SYSTEMS, REGULATION OF TAX INCENTIVES AND TAX HAVENS, AND FOR A COMPATIBLE SYSTEM OF ANTI-TRUST REGULATION. GENERALLY, ALL AGREED ON THE NEED FOR MORE DEFINITE LONG-RANGE PLANNING BY THE LDC'S, BUT THERE WAS NO CONSENSUS ON THE PRESENT POSSIBILITIES FOR CREATING A SATISFACTORY GATT-TYPE OF SYSTEM TO REGULATE TRANSFER OF CAPITAL.

11. COPIES OF WRITTEN STATEMENTS MADE AVAILABLE TO USUN BEING AIRGRAMMED TO DEPT.
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